



THE CITY OF SAN DIEGO

DATE: March 11, 2010

TO: Honorable Mayor, City Council, Budget & Finance Committee, and Citizens Revenue Review and Economic Competitiveness Commission Members
City of San Diego, California

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Response to Administration's Comments regarding the Citywide Revenue Audit Report**

On March 5, 2010, the City Auditor's Office released the *Citywide Revenue Audit Report*. We made 23 recommendations. On February 22, 2010, the Independent Budget Analyst provided a response to the Revenue Audit Report recommendation number 16 (Attachment I) and on March 8, 2010, City Management provided a response to all recommendation in the report (Attachment II). Management agreed with 17 recommendations, partially agreed with three recommendations, and disagreed with three recommendations. Based on management's responses, we feel it necessary to provide additional clarity to some of management's responses.

Timing of Management Response

As indicated in management's response dated March 8, 2010, the Revenue Audit report was released on March 5, 2010, without an attached management response. However, we incorporated technical information management provided during the exit conference where appropriate. We made every effort to meet with management to address their technical concerns and to receive a response within a reasonable timeframe. As shown in the following timeline, management had almost two months to review and respond to the report.

- | | |
|----------|--|
| 12-16-09 | Pre-exit conference held with management to discuss preliminary findings. |
| 1-8-10 | Preliminary draft report provided to management. Advised response was due February 9 th . |
| 1-27-10 | Exit conference held with management to discuss report and recommendations. Management advised that they had completed a draft response to the report. |



- 2-16-10 Met with the Chief Financial Officer to discuss the draft report. Advised final draft report would be issued the next day and that a response would be due February 24th.
- 2-17-10 Final draft report provided to management. Advised response was due February 24th.
- 2-19-10 Chief Financial Officer requested an extension until March 5th to respond to the report.
- 3-4-10 Met with management to discuss one section of report. No substantial changes resulted from the meeting.
- 3-5-10 Revenue Audit report released.
- 3-8-10 Management response received.

Further, the management maintains a process narrative outlining how the administration will respond to audits and recommendations. This narrative provides a 30 day timeline to respond to issued audit reports. Although we are working with the Comptroller's Office regarding necessary changes to the process narrative regarding our recommendation follow-up process, we have not agreed or accepted the 30 day audit response timeline. In issuing audit reports, we determine the time available for management's response taking into account factors such as legislative commitments.

Streamline Communication with County of San Diego's Assessor's Office

We made the following recommendation:

Recommendation 4: *The City of San Diego should consider streamlining its communication with the County of San Diego's Assessor's Office to ensure the County's possessory interest records are up to date.*

On page 15 of the Citywide Revenue Audit Report, we note the following:

Approximately 14-15 City of San Diego agencies communicate with the County regarding this issue. While there is regular communication between the City of San Diego and the County Tax Assessor's Office regarding possessory interests to ensure that the County's records are up to date, the County did note that it would benefit from a more direct and streamlined line of communication – for example, dealing solely with the Real Estate Assets Department regarding all possessory interests in the City.

While management's response states that the Real Estate Assets Department serves as the sole point of contact for the City's possessory interests, the County of San Diego's Assessor's Office stated that it receives forms from 14-15 agencies within the City. The County maintains contacts within each of these agencies to whom the forms are sent, and agencies are required to submit the forms to the County by February 15. Our recommendation is based on this information.

Evaluate Benefits of Joining Teeter Plan

We made the following recommendation:

Recommendation 5: *The City's Financial Management Department should evaluate the benefits of joining the Teeter Plan, and unless there is compelling information to suggest otherwise, take appropriate steps to become part of the Plan.*

Management agrees with the recommendation to evaluate the benefits of joining the Teeter Plan. Under a Teeter Plan, the City would receive the full property tax *billed* to property owners. Additionally, the City **would receive** penalties for delinquent accounts less than one year past due. The City would lose penalties on delinquent accounts exceeding a year. Currently, the City collects only property tax received and waits to receive any delinquent payments, late penalties, and fines. Management's response asserts, by some point **in the future**, the City will receive all of the property tax billed to property owners as well as make additional revenue from late penalties and fines. Since the County does not have data regarding the timing of delinquent accounts more than one year past due, management cannot currently provide support for their assertion. A Teeter Plan's impact is clear in that the City of San Diego would have received additional property tax gains of at least \$6.39 million for the period FY2007 – FY2009.

California Revenue and Taxation Code Section 3691(a)(1)(A) states that the tax collector has the power to sell and shall attempt to sell all or any portion of tax-defaulted property that has not been redeemed five years or more after the property has become tax defaulted, or three years in the case of nonresidential commercial property. However, Revenue and Taxation Code Section 3692 only requires the tax collector to attempt to sell within four years of the time that the property becomes subject to sale, and that if there are no acceptable bids at the attempted sale, the tax collector shall attempt to sell at intervals of no more than six years until the property is sold. In other words, while the County must attempt to sell property that is in default for more than five years, it is only required to do so within four years after obtaining the "power to sell." Without additional information from the County, it is difficult to determine what percentage of tax-defaulted properties are actually sold within the five year period, and what percentage are extended beyond that period to the full range of nine years.

Further, there are policy implications which impact consideration of a Teeter Plan. Under a Teeter Plan and unlike other revenue sources, the County "guarantees" the City receives the full billed property tax revenue in a timely fashion. This results in a more stable and reliable revenue source where revenues available for expenditure match the period of revenue generation. As noted by management's response, in an economic downturn, the increased rates of delinquencies result in less property tax being available to cover expenditures during the downturn. We emphasize that the purpose of a fine or penalty is to promote compliance with a certain law or regulation. If the City's objective is to ensure payment of the full amount of property tax due to the City, the Teeter Plan is an avenue toward achieving that objective.

Annually Reconcile Sales Tax Triple-Flip Funds

We made the following recommendation:

Recommendation 8: *Financial Management should annually reconcile Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports.*

Management disagrees with the recommendation and states that Financial Management currently reviews quarterly and reconciles annually the Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports. Management had many opportunities to clarify any inaccuracies regarding verifications of Sales Tax Triple-Flip funds. Based on documented conversations with Financial Management staff, we concluded that annual reconciliations are a viable method of verifying the accuracy of Triple-Flip funds that was not currently being done. In addition, it was unclear that any verification was being performed due to the lack of written policies and procedures for sales tax verifications by the City.

Moreover, the intent of the highlighted statement regarding calculation of the Triple-Flip is to convey that the ERAF shift determines the Triple-Flip amount, not that the County determines this amount. Management is correct that the County performs the allocation according to State specifications – we did not intend to suggest otherwise.

Audit Hotel Operators on a three-year cycle

We made the following recommendation:

Recommendation 21: *Based on the requirement for hotel operators to maintain records for a period of three years, the Revenue Audit Division should perform audits on a three-year cycle.*

Management disagrees with the recommendation stating that TOT audits are currently scheduled to be performed between every two to three years. While it is correct that the Departmental Procedures state a two to three year audit cycle, we found that some operators are audited outside of this period. Based on a review of the Revenue Audit Division's TOT database, the audit cycle for some operators outside of the two to three year cycle ranges from four years to almost six-and-a-half years. Because of this, we stated in the Citywide Revenue Audit report that while operators are *generally* audited in the two to three year cycle provided in Departmental Procedures, the Revenue Audit Division should ensure that audits are performed according to this provision. We noted this observation in our written response to the City Treasurer's comments and clarifications provided to us at the exit conference.



Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Nader Tirandazi, Financial Management Department Director
Gail Granewich, City Treasurer
Ken Whitfield, City Comptroller
Patti Boekamp, Engineering & Capital Projects Department Director
Jim Barwick, Real Estate Assets Department Director
Andrea Tevlin, Independent Budget Analyst
Jan Goldsmith, City Attorney

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

DATE: February 22, 2010

TO: Eduardo Luna, City Auditor

FROM: Andrea Tevlin, Independent Budget Analyst



SUBJECT: Draft Citywide Revenue Audit Recommendation # 16

As you requested, I have reviewed recommendation #16 from your draft Citywide Revenue Audit Report. This recommendation suggests that the IBA work in consultation with the Real Estate Assets Department to revise Council Policy 700-10 to clarify which City department or office has or should have auditing authority over the City's percentage-based leases. If requested by the City council, the IBA will research/discuss relevant considerations with the Real Estate Assets Department and other sources in order to make a policy recommendation for City Council consideration.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: March 8, 2010

TO: Eduardo Luna, City Auditor

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Management Response to the *Citywide Revenue Audit Report*

This memorandum is in response to the City Auditor's Citywide Revenue Audit Report (Report). City staff received the final version of the Report on February 17, 2010, with final changes based on management's discussions with City Auditor received on March 4, 2010. While the City Auditor released his Report on Friday March 5, 2010 without management's response, under the internal controls and process narrative reviewed by the City Auditor, management has 30 days to prepare their response and present it to the City Auditor, which would have been March 19, 2010.

The Audit Report on Citywide Revenue (Report) finds that most major revenues are audited and points out areas of improvement where departments can streamline communication with the County and enhance or develop the documentation of processes and procedures in the current review of City revenues. Management supports these process improvement recommendations, some of which are currently underway and which will be completed according to the dates in the responses listed below.

The Report identifies little quantifiable data to indicate that revenues are being left on the table through lack of additional auditing activity. Since there is no excess capacity in the finance department, the assessment of cost versus return on potential incremental revenue will need to be conducted in the next year to determine how to proceed with several of the recommendations to benefit the City overall.

The Report did not take a position on where the Revenue Audit Division should report. The division currently reports to the City Treasurer, and has been highly effective in revenue recovery (**Attachment 1**). This division should remain in that Department since it is a function of the City Treasurer to collect all revenues owed to the City.

The San Diego City Charter Section 45 requires that the City Treasurer shall collect taxes, fees and assessments and maintain and inspect records and accounts:

The Treasurer shall issue notices for and collect...miscellaneous taxes, fees, assessments, licenses and privilege charges as may from time to time be assigned to him or her. He or she shall maintain a continuous inspection of the records and accounts of such taxes, licenses and privilege charges in order to effectuate their collection.

In 2006, City management made the decision to move the external audit function from the City Auditor and Comptroller Department to the Office of the City Treasurer. This move was supported by the Kroll Report recommendation that the City create a new independent position of Auditor General with responsibility for **internal** audits of the City's (1) internal controls; (2) financial accounting, reporting and disclosure; (3) operations; and (4) fraud, waste and abuse. Significant efficiencies have been realized as a result of the Revenue Audit Division existing within the Department which, as required by City Charter, administers the City's tax codes and receives lease and franchise fee payments on behalf of administering departments.

The Office of the City Treasurer, Financial Management Department, Office of the City Comptroller, Real Estate Assets Department and General Services Department have reviewed the February 2010 *Citywide Revenue Audit Report* and provide the following responses to the recommendations:

Recommendation 1: *Develop a Memorandum of Understanding with the County of San Diego to ensure access to required information allowing the City Treasurer's Revenue Audit Division to review property tax allocations to the City and observe the next State audit of the County*

Response: Agree with recommendation. A survey will be performed during the first quarter of Fiscal Year 2011 to determine whether other jurisdictions have performed similar property tax allocation audits. The purpose will be to determine the staffing needed and estimate the revenue potential to the City. If the survey suggests such an audit would be beneficial to the City, the Revenue Audit Division will work with the Financial Management Department to develop a Memorandum of Understanding with the County of San Diego that enables the City to review property tax allocation information.

Recommendation 2: *The Financial Management Department should take steps to obtain State audits of County property tax allocations, and review any relevant findings/recommendations for purposes of follow up.*

Response: Agree with recommendation. Financial Management will contact the State Department of Finance in April to obtain audit findings from previous fiscal years for review. Financial Management will also contact the State by August 31st to discuss receiving audit reports for the County of San Diego's property tax allocations for fiscal year 2010.

Recommendation 3: *The City Treasurer's Office should consider providing business registration information to the County Assessor's Office, and inform new businesses registering in the City of San Diego that they may be required to pay unsecured property tax to the County.*

Response: Agree with recommendation. The Office of the City Treasurer Business Tax Division currently provides a listing of businesses on its website at:

<http://www.sandiego.gov/treasurer/taxesfees/btax/nblactive.shtml>

The City of San Diego uses State income tax data to ensure full compliance of businesses located and operating within City limits. By the end of the fourth quarter of fiscal year 2010, the City will request that the County match the City's Business Tax data against the County's unsecured property database and extract businesses that are not in compliance.

In addition, the City Treasurer will request the County's unsecured property reporting requirements literature and place it in the lobby information center. The Office of the City Treasurer will provide the Office of Small Business additional detail regarding the County's unsecured property tax requirements to add to its *"10 Key Steps" to Starting a Business* publication. (Newly formed businesses use this information as a guide to local, state and federal business start-up regulatory requirements).

These measures could increase the amount of unsecured property tax to the City, and an analysis will be conducted 12 months after these outreach and education activities are in place to determine any material effect on unsecured property tax revenues.

Recommendation 4: *The City of San Diego should consider streamlining its communication with the County of San Diego's Assessor's Office to ensure the County's possessory interest records are up to date.*

Response: Disagree with the recommendation. The Real Estate Management Assets Department (READ) has streamlined communications with the County for all City owned land. READ sends a report twice yearly to the County Assessor that lists all of the possessory interests in City owned property. Any questions or anomalies are discussed directly by phone with the Assessor's office. The Report's request for consolidation of communication is unclear since there is one point of contact for the City's possessory interests.

Recommendation 5: *The City's Financial Management Department should evaluate the benefits of joining the Teeter Plan, and unless there is compelling information to suggest otherwise, take appropriate steps to become part of the Plan.*

Response: Agree with recommendation. As stated in the City's Internal Auditor report, a cost and benefit analysis of joining the Plan based on lost revenues and increased cash flow for previous fiscal years is difficult to accurately perform due to the lack of information from the County Assessor and Auditor's Offices. A number of different analyses have been prepared by the Auditor's Office, Financial Management, and the County with different estimates of increased cash flow and lost revenue estimates if the City were to join the Teeter Plan (Plan). The estimates prepared by the County showed a cash flow improvement to the City of San Diego

of approximately \$10 million per fiscal year from 2007 – 2010. However, the assumptions the County used to estimate these cash flows and penalties referenced in the Report are unclear or unknown.

In that regard, a statement made in the Report regarding the City's property tax revenues cannot be verified at this time and is premature and potentially misleading.

The Report states:

"The San Diego County's Property Tax Service Division's own analysis revealed that the impact of not receiving revenues as part of the Teeter Plan resulted in the city not receiving \$29.7 million in realized property tax revenues, which were generated in the past three fiscal years".

The \$29.7 million cited in the Report overstates the delayed receipt of property tax revenue and is misleading since it does not consider that the City, as a non-participant in the Plan, also receives an inflow of property tax revenues each year from the collection of prior year delinquencies (with associated penalties and interest.) The Report's analysis is flawed in not considering this inflow of revenue offsetting delayed cash flow from the annual uncollected tax levy. The City's total property tax revenue in any year is augmented by prior year revenues and the delay in receipt of the annual levy that is uncollected that year may be offset in great part - or be exceeded - by prior year revenues flowing into the City. The County has not yet provided the data to either management or the City Auditor showing the revenue stream from the collection of prior year delinquencies. This is critical information for any definitive analysis and management will request this information from the County.

In addition, the Report analyzes data the County provided as if the City were in the Teeter Plan. Since the City is not in the Plan, a very different data set and analysis is needed than the information presented in the Report to determine accurately the economic impact to the City by joining Teeter.

The Teeter Plan allows Cities to receive their full property tax amounts due in the fiscal year in which they were billed to property owners. Any amount of property tax that is due to the City at the end of a fiscal year from an unpaid secured property tax amount is paid to the City by the County. The County benefits by keeping the City's allocated penalties and interest, which are approximately 15 percent of the unpaid tax bill. Additionally, since these unpaid bills are secured by real property, this payment is virtually guaranteed by the ability of the County to foreclose on a property that has five years of unpaid property tax bills. A city that is not a participant in the Plan does not realize a cash flow benefit but keeps all penalties and interest associated with the unpaid bills. Therefore, a non-participant in the Plan receives more revenue than a participant in the Plan, in exchange for delayed cash flow.

During periods of economic downturn, such as the one currently being experienced, these delinquent property tax receivables due to the City increase as fewer homeowners are able to pay amounts currently due. However, with an increase in receivable property tax amounts, a corresponding increase in receivable penalty revenue occurs. During times of economic expansion, these delinquent property tax amounts and the associated penalty and interest revenue are paid, resulting in additional income received by a city that is not a Plan participant. With the

forecasted economic stabilization and growth in the upcoming fiscal year(s), the City of San Diego could lose additional revenue in exchange for an improved cash flow.

Financial Management will work with the County of San Diego Auditor's Office over the next six months to obtain more information about the benefits or loss associated with the City joining the Teeter Plan. Some of the additional questions that the County will be asked include: Would the City receive the accrued penalties and interest, or only the delinquent tax amount? How much if any delinquent revenue would be lost to the City from prior years by joining the Plan? Further research and analysis will be performed by Financial Management to verify the amount of potentially improved cash flow or the decrease in revenues from losing interest and penalties, any potential increase in administrative costs for the City, and other factors that may affect the City's decision to join the Plan. A report and recommendation on the Teeter Plan will be presented to the Budget and Finance Committee in the second quarter of fiscal year 2011.

Recommendation 6: *Consider having the City Treasurer's Revenue Audit Division utilize the free audit training offered by MuniServices, LLC to reduce reliance on MuniServices for future sales and use tax audit services.*

Response: Partially agree with recommendation. A cost-benefit analysis of changing the distribution of sales tax audit responsibilities will need to be performed to determine the reasonableness of the City taking on this role. This analysis will be performed before the current MuniServices agreement expires in April 2011. If the analysis suggests the City can increase its sales tax revenue recovery through increased involvement in the sales tax audit process, this training will occur. However, while management will explore the enhancement of audit services through additional training, we do not believe that it is cost effective or beneficial for the City to bring in-house the full sales tax and property tax revenue auditing function performed by an outside firm with specialized expertise.

Recommendation 7: *Financial Management should review gross Safety Sales Tax revenues annually in order to verify the accuracy of Safety Sales Tax allocations to the City.*

Response: Agree with recommendation. Financial Management reviews both monthly and annually the distributions of safety sales tax (Proposition 172) using information from the California State Controller's web site, which outlines distributions to individual counties throughout the State. This information is used in combination with the City's distribution percentage of total County revenue (3.2 percent), as established by California government code 30055 (d), for correct allocation review.

The gross amount of safety sales tax revenue received by the State is apportioned to each county based upon the county's total taxable sales as a percentage of State-wide taxable sales. Financial Management will request State-wide taxable sales amounts and total County of San Diego taxable sales amounts from the State Board of Equalization by August 1st to determine if the gross amount of Proposition 172 revenue received by the County prior to distributions to cities is correct. Financial Management will also request the County provide their audit, if available, of the gross amount of revenue received by the state.

Recommendation 8: *FM should annually reconcile Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports.*

Response: Disagree with recommendation. FM currently reviews **quarterly and reconciles annually** the Sales Tax Triple-Flip funds received from the County with ERAF shift loss detailed in BOE sales tax reports.

It is unclear from the recommendation in the Report what additional review is recommended.

In addition, the Report states: "...the County is responsible for the calculation of the Educational Revenue Augmentation Fund shift **that determines the sales tax amount the City exchanges for an equivalent amount of property tax.**" The highlighted portion is not correct because the State Department of Finance provides the triple flip allocation calculations to counties with specific allocations for each city within that county. The county does not determine the allocation to the cities; that information comes to the counties from the BOE.

Recommendation 9: *The City Comptroller's Office should continue indentifying the necessary sub processes and prepare written policies/procedures for verifying the accuracy of TransNet revenue.*

Response: Agree with recommendation. The Office of the City Comptroller and Financial Management have identified six separate TransNet process narrative documents that are scheduled to be written and published during the first quarter of fiscal year 2011.

Recommendation 10: *In order to verify accurate TransNet allocations, the City of San Diego Streets Division should work with the California Department of Transportation (CalTrans) to ensure accurate miles of road maintained figures".*

Response: Agree with recommendation. Street Division will continue to work with Caltrans to ensure accurate miles of street maintained figures. Currently Street Division is reviewing the 2009 mileage report provided by Caltrans and will ensure all City maintained street miles are accurately reflected in the Caltrans mileage report. The review and update of the mileage is expected to be completed by the last quarter of fiscal year 2010.

Recommendation 11: *The Office of the City Comptroller should develop written policies/procedures for verifications of gas tax revenues performed by the City.*

Response: Agree with recommendation. The Office of the City Comptroller will develop a process narrative that documents the requirements for verification of gas tax revenues. This process narrative(s) will be written and published during the first quarter of fiscal year 2011.

Recommendation 12: *The Office of the City Comptroller should ensure the City is not paying federal gas taxes by verifying that the payments to fuel vendors do not include federal excise tax.*

Response: Agree with recommendation. The Office of the City Comptroller will develop a process narrative that documents the requirements for verification of not paying for federal

excise tax on purchased fuel. This process narrative will be written and published during the first quarter of fiscal year 2011.

Recommendation 13: *The Office of the City Comptroller and Financial Management should develop written policies/procedures for verifications of motor vehicle license fees.*

Response: Agree with recommendation. The Office of the City Comptroller and Financial Management will develop a process narrative that documents the requirements for verification of motor vehicle license fees. This process narrative(s) will be written and published during the first quarter of fiscal year 2011.

Recommendation 14: *The City Treasurer's Office should monitor when court revenue distribution audits are done by the State Controller's Office, and be aware of findings and/or under remittances relevant to the City of San Diego for purposes of follow up.*

Response: Agree with recommendation. The City Treasurer's Office will establish a written departmental procedure for monitoring distribution audits by the first quarter of fiscal year 2011.

Recommendation 15: *The City Treasurer's Revenue Audit Division should consider performing audits of court distributed revenues.*

Response: Partially agree with recommendation. Cost-benefit analysis will be performed before taking on this role. This analysis will involve determining which court distributed revenues are subject to outside audit; which court distributed revenues are large enough to merit the cost associated with audit; the likelihood that, and extent which, court distributed revenues have been underpaid to the City; an estimate of the time needed to conduct these reviews; the ability to perform such reviews with existing staff, and, if existing staff is not sufficient, the cost of adding staff to the division. This cost-benefit analysis will be completed by the end of the second quarter of fiscal year 2011.

Recommendation 16: *The Office of the Independent Budget Analyst (IBA) should work in consultation with the Real Estate Assets Department to revise Council Policy 700-10 to clarify who has the appropriate auditing authority.*

Response: Agree with recommendation to revise the Council Policy. READ will work with the IBA in order to clarify Council Policy 700-10 to reflect that the Office of the City Treasurer's Revenue Audit Division has auditing authority. Real Estate Assets believes that this can be completed by the end of the first quarter of fiscal year 2011.

Recommendation 17: *The Real Estate Assets Department should develop written policies/procedures for the verification of lease payments.*

Response: Agree with recommendation. The Real Estate Assets Department will develop written procedures in conjunction with the new Reportfolio data management system that will be implemented by Real Estate Assets on March 1, 2010. This should be completed by the end of the first quarter of fiscal year 2011.

Recommendation 18: *The Real Estate Assets Department should work with the City Treasurer's Revenue Audit Division to develop an indicator for percentage leases in the Electronic Document Retrieval System (EDRS).*

Response: Partially agree with the recommendation. We agree that the Revenue Audit Division should have a process of determining percentage leases in the Reportfolio data management system. The Revenue Audit Division will have access to Reportfolio which will have indicators for percentage leases. However, the Electronic Document Retrieval System is a document storage system and not a data management system; therefore, it would not be practical to place percentage lease indicators in this system. A new process will be documented and completed by the end of fiscal year 2010.

Recommendation 19: *The City Treasurer's Revenue Audit Division should include their annual reconciliation of the Division's lease audit database with the Real Estate Assets Department database in their written departmental procedures.*

Response: Agree with recommendation. The departmental procedure will be completed by the end of the third quarter of fiscal year 2010.

Recommendation 20: *The Revenue Audit Division should develop policies/procedures for auditing state video franchises that include (1) procedures for auditing franchisee's methodology of calculating franchise fees, (2) the requirement for the franchisee to provide detailed calculation summaries, and (3) an audit cycle no longer than 4 years.*

Response: Agree with recommendation. These are all standard audit procedures that will be incorporated into the audit program for state video franchises when it is developed and completed in the fourth quarter of the current fiscal year.

Recommendation 21: *Based on the requirement for hotel operators to maintain records for a period of three years, the Revenue Audit Division should perform audits on a three-year cycle.*

Response: Disagree with recommendation. The recommendation restates the documented procedures already in place in the City Treasurer's Department. As stated in the Office of the City Treasurer Departmental Procedure regarding the determination of the audit cycle, TOT audits are currently scheduled to be performed between every two to three years. The Revenue Audit Division will continue to abide by its Departmental Procedures.

Recommendation 22: *The Business Tax Compliance Program should develop written policies/procedures for the work it performs.*

Response: Agree with recommendation. The Business Tax Compliance Program policies and procedures that are currently being drafted will be finalized to include the Franchise Tax Board process. This will be completed by the end of the fourth quarter of Fiscal Year 2010.

Page 9

Eduardo Luna, City Auditor

March 8, 2010

Recommendation 23: *The Business Tax Compliance Program should expand techniques used for ensuring compliance – including utilization of preventative measures such as informal employee audits – and determine an alternative method for ensuring accurate business size designation.*

Response: Agree with recommendation. The Office of the City Treasurer is currently evaluating an employee count verification process requiring businesses with five or more employees to submit their State of California annual EDD tax statement to confirm employee count compliance with the City's Business Tax requirement to report number of employees. This proposal for fiscal year 2011 has been drafted and submitted. If approved, it is estimated that this program could be implemented by the end of the first quarter of Fiscal Year 2011.

Mary Lewis
Chief Financial Officer

ML

Attachment: 1. Revenue Audit Quarterly Reports: FY2009 Quarter 3 and Quarter 4;
FY2010 Quarter 1 and Quarter 2

cc: Honorable Mayor Jerry Sanders
Honorable Councilmembers
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Gail Granewich, City Treasurer
Nader Tirandazi, Financial Management Director
Ken Whitfield, City Comptroller
Jim Barwick, Real Estate Assets Director
Mario Sierra, General Services Director
Kyle Elser, Audit Manager



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: May 20, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program and Response to FY2010 Budget Discussion

I am sending you a report for your information on the activities of the Revenue Audit Program under the Office of the City Treasurer that describes the audits concluded this quarter (as of March 31, 2009) and fiscal year to date, including revenues recovered.

In addition, in response to the budget discussions regarding the Revenue Audit Program, the City Treasurer has added background information on the Program's results over the past five fiscal years (2004 through 2008) that include the number of audits completed and the revenue recovered as a result of these audits.

Please contact me or Gail Granewich, City Treasurer, if you have additional questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer ✓

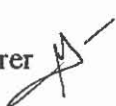


THE CITY OF SAN DIEGO

MEMORANDUM

DATE: May 15, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Gail R. Granewich, City Treasurer 

SUBJECT: Revenue Audit Program – Quarterly Report
and Response to FY 2010 Budget Discussions

Quarter Ending March 31, 2009 – Audits Completed

During the third quarter of Fiscal Year 2009, the Office of the City Treasurer's Revenue Audit Program completed 26 audits, totaling \$279,606 in audit deficiencies. The 26 audits included 20 tax-related audits and 6 lease audits, including:

Transient Occupancy Tax/Business Tax Audits

- W San Diego
- 500 West Hotel
- Doubletree Del Mar
- Ramada San Diego North
- Two (2) non-compliant vacation rental properties

Lease Audits

- Ace Parking operations at Qualcomm Stadium
- Canyonside Stables, LLC
- Crystal Pier Motel, Inc.
- Seaforth Sportfishing Corp.
- Wave House Belmont Park
- Rancho Santa Fe Polo Club

Quarter Ending March 31, 2009 – Recoveries

During the third quarter of Fiscal Year 2009, the City received \$200,006 in recoveries on performed audits, including \$57,636 received by the Office of the City Treasurer's Delinquent Accounts Collection Division.

Current Quarter (Ending June 30, 2009)

Major TOT and lease audits expected to be completed during the current quarter include:

- Residence Inn Mission Valley
- Holiday Inn Mission Valley
- Sheraton Suites San Diego
- Sheraton Suites Shelter Island
- San Diego Visitor Information Center
- SDSU Football use of Qualcomm Stadium
- KenCal Ownership (Hyatt Islandia)
- NextG Networks (Use Permit)

2009 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the third quarter ending March 31, 2009:

Table A

| Type | Audits Completed | Audit Hours | Audit Deficiencies | Recoveries |
|-----------------|------------------|--------------|--------------------|------------------|
| TOT | 71 | 2,652 | \$537,142 | \$382,035 |
| Lease/Franchise | 15 | 1,707 | \$199,472 | \$168,937 |
| Requested (BT) | 5 | 14 | \$4,940 | \$3,160 |
| Total | 91 | 4,373 | \$741,554 | \$554,132 |

As a reminder, of the 65 revenue audits completed during the first and second quarters of this fiscal year, some of the more significant audits included:

Transient Occupancy Tax/Business Tax Audits

- Western Inn Old Town
- Bahia Hotel
- Studio 819
- Staybridge Suites Sorrento Mesa
- Holiday Inn Express
- US Grant Hotel
- Hotel Occidental
- Staybridge Suites Carmel Mountain
- Embassy Suites La Jolla
- Holiday Inn on the Bay

Lease Audits

- San Diego Chargers Football Company
- Wesco Sales Corp.
- Paradise Café II
- San Diego Bowl Game Association
- The Lodge at Torrey Pines
- Catamaran Hotel (and two associated operations)

Staffing Updates

The Revenue Audit Program continued to operate with two open positions during the third quarter. Requests to fill these positions were approved and one vacancy was filled in late April, the other is expected to be filled by early June.

Response to Councilmember Young's Fiscal Year 2010 Budget Recommendation

In a memorandum dated April 30, 2009, Councilmember Anthony Young requested "the Mayor and City Auditor to review and take action on transferring the functions of the Revenue Audit and Appeals division of the City Treasurer's office into the Office of the City Auditor." He further indicated that savings would result from this consolidation and that the revenue audit function should be under the Independent Auditor.

This section of the report provides background on the Revenue Audit Program and results from the prior five (5) years.

Background

The Office of the City Treasurer's Revenue Audit Program has been performing audits of revenue-generating businesses within the City limits since the mid-1960s. Originally, the program was part of the Audit Division within the department of the Auditor and Comptroller. In June of 2006, and consistent with City Charter §45, the Revenue Audit Program was transferred under the oversight of the City Treasurer. City Charter §45 states in part:

The Treasurer shall issue notices for and collect...miscellaneous taxes, fees, assessments, licenses and privilege charges as may from time to time be assigned to him or her. He or she shall maintain a continuous inspection of the records and accounts of such taxes, licenses and privilege charges in order to effectuate their collection.

As indicated in **Table B** below, many other large jurisdictions place the revenue audit function within its main revenue receiving department.

Table B

| Municipality | Location of Revenue/Tax Audit Function | Municipality | Location of Revenue/Tax Audit Function |
|---------------------|---|---------------------|---|
| Los Angeles | Office of Finance | Phoenix | Finance Department |
| Chicago | Revenue Department | San Antonio | Finance Department |
| Houston | Finance Department | San Jose | Finance Department |
| Philadelphia | Revenue Department | San Francisco | Treasurer and Tax Collector |

The transfer of the Revenue Audit Program to the Office of the City Treasurer also cleared the way for the Office of the City Auditor to be established as a separate, independent department focused on the operations of the City as set forth in City Charter §39.2. The operations, focus, procedures and audit techniques of the revenue audit function differ from the City Auditor's role and responsibility. Revenue auditors focus on whether or not revenues paid to the City have been made correctly, whereas internal auditors focus on overall efficiencies and controls of an organization.

The move to the Office of the City Treasurer has in fact streamlined revenue audits. The Revenue Audit Program now exists within the department which, as required by City Charter, administers the City's tax codes and receives lease and franchise fee payments on behalf of administering departments.

As referred to in City Charter §45, the City Treasurer's Revenue Audit Program exists to "...maintain a continuous inspection of the records and accounts..." of the taxes, rents and fees paid to the City. These include the Transient Occupancy Tax paid by all hotels, motels and property management companies within the City; rent payments made by all of the City's percentage rent lessees; and franchise fees paid by all waste haulers, cable companies and utilities operating within the City limits. Audits are also done on certain business tax payments on an as-needed basis only, due to the high rate of compliance in the department's FTB Compliance Program.

A typical revenue audit involves reviewing financial statements and general ledgers; testing detailed accounting records for accuracy and reliability; confirming compliance with governing sections of the Municipal Code and lease or franchise agreements; and making recommendations to administering departments based on audit findings.

Over the past five years, through detailed and thorough revenue auditing and analysis, the Revenue Audit Program has brought in the following recoveries:

Table C

| Year | No. of Audits | Audit Hours | Recoveries | FTEs |
|-------------|----------------------|--------------------|--------------------|-------------|
| 2008 | 98 | 4,706 | \$1,367,209 | 5 |
| 2007 | 136 | 5,648 | \$2,474,149 | 5 |
| 2006 | 118 | 6,099 | \$1,704,618 | 5 |
| 2005 | 165 | 8,603 | \$1,530,616 | 6 |
| 2004 | 174 | 8,601 | \$1,194,404 | 6 |

The main types of revenues audited by this program and included in the summary results in **Table C** are:

Transient Occupancy Tax

The City imposes a Transient Occupancy Tax of 10.5% on hotel guests for the privilege of occupying a room in a hotel, motel, RV park, or vacation rental within the City limits. Operators of these establishments have the responsibility to collect the tax and remit it to the City. Revenue audits are performed on the payments made by these operators. These audits also include a review of the recently adopted Tourism Marketing District fee of 2%, assessed on revenues of hotels with 70 or more units.

Authority to Audit: SDMC §35.0121

Number in Audit Population: 308

Frequency of Audits: Every Two to Three Years

Table D

| Fiscal Year | No. of Audits | Audit Hours | Total Recoveries |
|--------------------|----------------------|--------------------|-------------------------|
| 2008 | 86 | 3,378 | \$846,661 |
| 2007 | 95 | 3,787 | \$2,095,083 |
| 2006 | 73 | 3,154 | \$638,127 |
| 2005 | 106 | 3,855 | \$435,839 |
| 2004 | 115 | 5,211 | \$621,097 |

Percentage Lease Agreements

The City has a number of lease agreements with businesses operating on City owned land. The bulk of these lease agreements exist at Mission Bay and the San Pasqual Valley. The lease agreements are administered by the City's Real Estate Assets Department. Additionally, the City has a few tenant agreements with businesses operating within Qualcomm Stadium. Revenue audits are performed on each of these lessees and permittees as well.

Authority to Audit: Within Individual Lease Agreements
Number in Audit Population: 87
Frequency of Audits: Every Two to Four Years

Table E

| Fiscal Year | No. of Audits | Audit Hours | Total Recoveries |
|--------------------|----------------------|--------------------|-------------------------|
| 2008 | 11 | 1,133 | \$350,150 |
| 2007 | 25 | 1,471 | \$237,783 |
| 2006 | 29 | 2,411 | \$257,750 |
| 2005 | 44 | 4,448 | \$991,314 |
| 2004 | 40 | 2,954 | \$516,192 |

Franchise Agreements

Franchise Fee payments are made to the City by utility companies, waste haulers and cable companies operating within the City limits. Revenue audits are performed on each of these franchisees.

Authority to Audit: Within Individual Franchise Agreements
Number in Audit Population: 18
Frequency of Audits: Every Three to Four Years

Table F

| Fiscal Year | No. of Audits | Audit Hours | Total Recoveries |
|--------------------|----------------------|--------------------|-------------------------|
| 2008 | 1 | 195 | \$170,398 |
| 2007 | 2 | 323 | \$112,116 |
| 2006 | 3 | 481 | \$760,241 |
| 2005 | 3 | 242 | \$86,044 |
| 2004 | 4 | 314 | \$35,432 |

Revenue auditing has a specialized focus, requiring specific training and accounting expertise. Revenue Audit Manager, Douglas Enger, is a Certified Public Accountant and has worked exclusively conducting revenue audits for the City of San Diego for 12 years.

Mary Lewis
May 15, 2009
Page 7 of 7

The total recoveries achieved by the Revenue Audit team over the past five years show that the Revenue Audit Program is providing an outstanding return to the City under the Office of the City Treasurer where the Charter required focus on revenue is paramount. I have a high performing, well qualified team. I do not believe that relocation of the revenue audit function under the City Auditor would result in additional efficiencies, cost savings or an increase in revenue.

cc: Elizabeth Correia, Financial Operations Manager
Douglas Enger, Revenue Audit Manager



RECEIVED
JUL 24 2009
City Treasurer

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: July 22, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program: Fiscal Year 2009 Fourth Quarter Report and
Fiscal Year 2010 Audit Schedule

Attached for your information is the Fourth Quarter Report (April 1st through June 30th 2009) for the Revenue Audit Program under the City Treasurer. In addition, the Fiscal Year 2010 Revenue Audit schedule is also included.

Please contact me or Gail Granewich, City Treasurer, if you have any questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer ✓



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: July 15, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager *DE*
via Gail R. Granewich, City Treasurer *GR*

SUBJECT: Revenue Audit Program – Quarterly Report Q4 '09

Quarter Ending June 30, 2009 – Audits Completed

During the fourth quarter of Fiscal Year 2009, the Office of the City Treasurer's Revenue Audit Program completed 27 audits, totaling \$410,793 in audit deficiencies. The 27 audits included 20 Transient Occupancy Tax (TOT), three (3) Business Tax and four (4) lease audits, including:

Transient Occupancy Tax and Business Tax Audits

- Hyatt Islandia
- Holiday Inn Mission Valley Stadium
- Residence Inn Mission Valley
- Town and Country Resort
- The Pidgeon Company (property managers)
- Bristol Court Hotel
- Two (2) non-compliant vacation rental properties

Lease Audits

- KenCal Ownership (Hyatt Islandia)
- National Air College
- San Diego State University (Aztec Football)
- Next G Networks (Right-of-Way Permit)

Quarter Ending June 30, 2009 – Recoveries

During the fourth quarter of Fiscal Year 2009, the City received \$234,831 in recoveries on performed revenue audits, which includes \$107,832 in TOT and Business Tax, \$62,390 in lease rent and \$64,609 in franchise fees.

Current Quarter (Ending September 30, 2009)

Major TOT, lease and franchise audits expected to be completed during the current quarter include:

- San Diego Gas & Electric (franchise fees)
- Sheraton Suites San Diego
- Sheraton Harbor Island
- The Sofia Hotel
- La Jolla Residence Inn
- Porto Vista Hotel
- Hilton San Diego Del Mar
- Westfield Corporation (North County Fair)

2009 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the fourth quarter ending June 30, 2009:

Table A

| Type | Audits Completed | Audit Hours | Audit Deficiencies | Recoveries |
|----------------|------------------|--------------|--------------------|------------------|
| TOT | 91 | 3,699 | \$677,905 | \$486,787 |
| Lease | 19 | 2,177 | \$465,185 | \$295,935 |
| Requested (BT) | 8 | 20 | \$9,257 | \$6,240 |
| Total | 118 | 5,896 | \$1,152,347 | \$788,962 |

As a reminder, of the 91 revenue audits completed during the first three quarters of Fiscal Year 2009, some of the more significant audits included:

Transient Occupancy Tax/Business Tax Audits

- Western Inn Old Town
- Bahia Hotel
- Staybridge Suites Sorrento Mesa
- US Grant Hotel
- Hotel Occidental
- Staybridge Suites Carmel Mountain
- Embassy Suites La Jolla
- Holiday Inn on the Bay
- W San Diego
- Doubletree Del Mar

Lease Audits

- San Diego Chargers Football Company
- Wesco Sales Corp.
- San Diego Bowl Game Association
- The Lodge at Torrey Pines
- Catamaran Hotel (and two associated operations)
- Seaforth Sportfishing
- Rancho Santa Fe Polo Club

FY 2010 Planned Audit Schedule

Please find attached to this report the Revenue Audit Program's schedule of planned audits for Fiscal Year 2010. The plan was produced by estimating the available audit hours for the year based on projected staffing levels, considering which routine audits are due during the next twelve months and adjusting for planned special audits.

One such special audit is a review of short-term vacation rentals we will undertake during the third quarter of the fiscal year. The majority of vacation rental properties throughout the City are rented through property management companies which we audit routinely. We have found, however, that there are a growing number of units offered for rent directly by the owner via the internet. Staff will perform a review of these properties, determine whether they have current TOT Certificates and follow-up with audits if not.

This year's plan calls for 133 completed audits during Fiscal Year 2010, including 93 TOT, 34 lease and six (6) franchise audits. We expect to accomplish a 13% increase in completed audits over last year. This is due to filling the two revenue auditor positions which have been vacant since December 2008.

Staffing Updates

The Revenue Audit Program continued to operate with one open position and one staff member assigned full-time to OneSD/SAP and other departmental accounting duties during the fourth quarter. The open position has been filled, with an expected start date in late July. The staff member currently assigned to other duties is expected to be auditing again in early August. This will return the program to full staffing of six auditors, including the Program Manager. The effect of full staffing is further quantified by comparing the total audit hours worked in Fiscal Year 2009 of 5,896 (Table A) to those planned for Fiscal Year 2010, or 7,975 audit hours (see attached).

cc: Elizabeth Correia, Financial Operations Manager



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: October 15, 2009

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Revenue Audit Program: Fiscal Year 2010 First Quarter Report

Attached for your information is the First Quarter Report for Fiscal Year 2010 (July 1st through September 30th 2009) for the Revenue Audit Program under the City Treasurer.

Please contact either Gail Granewich, City Treasurer, or me if you have any questions.

Mary Lewis

ML/slh

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: October 14, 2009

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager
via Gail R. Granewich, City Treasurer

SUBJECT: Revenue Audit Program – Quarterly Report Q1 '10

Quarter Ending September 30, 2009 – Audits Completed

During the first quarter of Fiscal Year 2010, the Office of the City Treasurer's Revenue Audit Program completed 33 audits resulting in audit deficiencies totaling \$240,979. The 33 audits included 28 Transient Occupancy Tax (TOT), four (4) Business Tax, and one (1) Lease audit, including:

Transient Occupancy Tax

- Del Mar Hilton
- Sheraton La Jolla
- Western Inn – Old Town
- Sheraton Suites San Diego
- Coastal Choice Properties (property managers)
- Holiday Inn Bayside
- Homewood Suites
- One (1) non-compliant vacation rental property

Lease Audits

- San Diego Visitor Information Center, LLC

Quarter Ending September 30, 2009 – Recoveries

During the first quarter of Fiscal Year 2010, the City received \$214,415 in recoveries on performed revenue audits, which includes \$206,677 in TOT, \$6,823 in Business Tax, and \$915 in Lease rent.

Current Quarter (Ending December 31, 2009)

Major TOT, Lease, and Franchise audits expected to be completed during the current quarter include:

- San Diego Gas & Electric (Franchise Fees)
- Cox Communications (Franchise Fees)
- Driscoll Mission Bay, LLC (Lease)
- LHO Mission Bay Rosie Hotel, LP (Lease)
- Hotel Solomar (TOT)
- La Jolla Residence Inn (TOT)
- Westgate Hotel (TOT)
- Omni Hotel (TOT)
- Holiday Inn Otay Mesa (TOT)

2010 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the first quarter ending September 30, 2009:

Table A

| Type | Audits Completed | Audit Hours | Audit Deficiencies | Period Recoveries |
|------------------|-------------------------|--------------------|---------------------------|--------------------------|
| TOT | 28 | 1,163 | \$235,758 | \$206,677 |
| Lease | 1 | 64 | \$915 | \$915 |
| Requested (BTax) | 4 | 10 | \$4,306 | \$6,823 |
| Total | 33 | 1,237 | \$240,979 | \$214,415 |

Staffing Updates

The Revenue Audit Program is now fully staffed with six auditors, including the Program Manager. The two new members joined Revenue Audit in July, one coming from within the Office of the City Treasurer and the other transferred from the Comptroller's office. These staff members are now fully trained and conducting assigned audits independently.

cc: Elizabeth Correia, Financial Operations Manager



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: January 28, 2010
TO: Honorable Members of the City Council
FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*
SUBJECT: Revenue Audit Program: Fiscal Year 2010/Second Quarter Report

Attached for your information is the Second Quarter Report for Fiscal Year 2010 (October 1st through December 31st 2009) for the Revenue Audit Program under the City Treasurer.

Please contact me or Gail Granewich, City Treasurer, if you have any questions.

Mary Lewis

ML/slh

Attachment:

cc: Honorable Mayor Jerry Sanders
Jay M. Goldstone, Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Audit Committee Members
Kevin Casey, Director of Council Affairs
Eduardo Luna, City Auditor
Gail Granewich, City Treasurer



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: January 15, 2010

TO: Mary Lewis, Chief Financial Officer

FROM: Doug Enger, Revenue Audit Manager *DE*
via Gail R. Granewich, City Treasurer *A*

SUBJECT: Revenue Audit Program – Quarterly Report Q2 '10

Quarter Ending December 31, 2009 – Audits Completed

During the second quarter of Fiscal Year 2010, the Office of the City Treasurer's Revenue Audit Program completed 26 audits resulting in audit deficiencies totaling \$618,105. The 26 audits included 20 Transient Occupancy Tax (TOT), two (2) Business Tax, three (3) Lease audit, and one (1) Franchise audit including:

Transient Occupancy Tax

- San Diego Hilton Resort
- The Residence Inn La Jolla
- The Omni Hotel
- Se San Diego
- Holiday Inn Express – Otay Mesa
- The Westgate Hotel
- Orchard Apartments
- One (1) non-compliant vacation rental property

Lease and Franchise Audits

- Downtown Johnny Brown's
- Torrey Pines Club Corp
- SDG&E – Mt. Woodson Flat Rent Adjustment
- SDG&E – Franchise Fees

Quarter Ending December 31, 2009 – Recoveries

During the second quarter of Fiscal Year 2010, the City received \$123,671 in recoveries on performed revenue audits, which includes \$123,400 in TOT and, \$270 in Business Tax.

Current Quarter (Ending March 31, 2010)

Major TOT, Lease, and Franchise audits expected to be completed during the current quarter include:

- Time Warner Cable (Franchise Fees)
- Cox Communications (Franchise Fees)
- Driscoll Mission Bay, LLC (Lease)
- Witman Ranch (Lease)
- Hard Rock Hotel (TOT)
- San Diego Marriott Hotel & Marina (TOT)
- Doubletree Hotel Mission Valley (TOT)
- The W Hotel (Close-out TOT)

In addition, the Revenue Audit Program will begin a review of TOT payments from vacation properties offered for rent through individual property owners rather than through property managers. Audits will be performed on owners based on the findings of the review.

2010 Fiscal Year-to-Date Totals

Revenue audits completed and recoveries through the second quarter ending December 31, 2009:

Table A

| Type | Audits Completed | Audit Hours | Audit Deficiencies | Period Recoveries |
|------------------|-------------------------|--------------------|---------------------------|--------------------------|
| TOT | 48 | 2,184 | \$829,902 | \$330,077 |
| Lease | 4 | 191 | \$6,758 | \$915 |
| Franchise | 1 | 140 | \$16,651 | \$0 |
| Requested (BTax) | 6 | 15 | \$5,772 | \$7,094 |
| Total | 59 | 2,530 | \$859,083 | \$338,086 |

cc: Elizabeth Correia, Financial Operations Manager